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## **2012 INTERIM RESULTS**

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### **RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012**

#### Highlights

- Profit attributable to shareholders amounted to HK\$260 million, a reduction of 36.6% over that for the corresponding period in previous year, translating into earnings of HK\$0.6 per share and annualised return on equity of 7.42%. Profit attributable to shareholders would have shown an improvement of 111% after excluding from previous year's profit attributable to shareholders the after taxation effect of the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme and reversal in impairment allowance on loans and advances from amount recovered on a secured loan which was previously written-off
- Asset quality of loans and advances continued to be good with impaired loan ratio at 0.07%, provision coverage of impaired loans and advances at 695.84%, and rescheduled loan ratio at 0.5%
- Net interest income increased by 3.6% as total assets rose by 8.5% year on year even though net interest margin narrowed 5 basis points from 1.11% for the first half of 2011 to 1.06%
- Revaluation of financial instruments at fair value through profit or loss turned from net losses of HK\$25 million in the corresponding period in previous year to net gains of HK\$28 million in the first half of 2012
- New impairment allowances on loans and advances dropped by 88% year on year to HK\$5 million and amounts reversed in impairment allowance on loans and advances from amounts recovered were HK\$39 million in the first half of 2012
- Total assets increased by 3.1% to HK\$79,822 million
- Capital adequacy ratio eased 1.1% to 15.27% and core capital ratio was at 10.53%
- The Bank's core business lines and overall financial health are sound, its non-performing loan ratio low and asset quality good, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements
- An interim cash dividend of HK\$0.11 per share is declared for the six months ended 30 June 2012 (2011 interim cash dividend: HK\$0.15 per share)

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2012, together with the comparative figures for the last corresponding period. This interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012

	Notes	Six months ended 30 June		Variance %
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited) (Restated)	
Interest income		782,675	624,882	+25.25
Interest expense		(382,124)	(238,222)	+60.41
Net interest income	4	400,551	386,660	+3.59
Fee and commission income		122,059	141,592	-13.80
Fee and commission expense		(30,182)	(27,892)	+8.21
Net fee and commission income	5	91,877	113,700	-19.19
Net gains (losses) on financial instruments				
at fair value through profit or loss	6	28,358	(24,661)	+214.99
Net gains (losses) on fair value hedge	6	727	(23,533)	+103.09
Other operating income	7	122,660	325,219	-62.28
Operating expenses	8	(387,075)	(391,426)	-1.11
		257,098	385,959	-33.39
Impairment allowances on loans and advances				
- New allowances		(4,716)	(39,773)	-88.14
- Amounts reversed		39,148	115,817	-66.20
		34,432	76,044	-54.72
Net losses on disposal of property and equipment		(8)	(11)	-27.27
Net gains on disposal of available-for-sale securities		468	7	+6,585.71
Net gains on disposal of and fair value adjustments on investment properties	17	6,646	5,863	+13.35
Share of profits of jointly controlled entities		10,387	13,638	-23.84
Profit before taxation		309,023	481,500	-35.82
Taxation	10			
- Hong Kong		(39,828)	(71,711)	-44.46
- Overseas		(9,006)	(1,614)	+457.99
- Deferred tax		(440)	1,618	-127.19
		(49,274)	(71,707)	-31.28
Profit for the period - attributable to owners of the Bank		259,749	409,793	-36.61
Earnings per share - basic	11	HK\$0.60	HK\$0.94	-36.61

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the six months ended 30 June 2012*

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited) (Restated)
Profit for the period	<u>259,749</u>	<u>409,793</u>
Other comprehensive income		
Exchange differences arising on translation	(3,628)	2,778
Fair value gains (losses) on available-for-sale securities arising during the period	66,158	(1,631)
Share of other comprehensive income (expense) of jointly controlled entities	250	(119)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(468)	(7)
Income tax effect relating to disposal of available-for-sale securities	77	1
Income tax effect relating to fair value change on available-for-sale securities	<u>(10,733)</u>	<u>(383)</u>
Other comprehensive income for the period (net of tax)	<u>51,656</u>	<u>639</u>
Total comprehensive income for the period	<u><u>311,405</u></u>	<u><u>410,432</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Bank	<u><u>311,405</u></u>	<u><u>410,432</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2012

	Notes	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Restated)	Variance %
<b>Assets</b>				
Cash and short-term funds	13	15,065,827	18,659,276	-19.26
Placements with banks and other financial institutions maturing between one to twelve months		3,628,438	2,169,007	+67.29
Derivative financial instruments	14	189,249	129,556	+46.08
Financial assets at fair value through profit or loss	15	1,515,823	1,845,589	-17.87
Available-for-sale securities	15	2,983,532	1,846,485	+61.58
Held-to-maturity securities	15	10,698,203	8,288,082	+29.08
Advances and other accounts	16	44,437,151	43,247,956	+2.75
Interests in jointly controlled entities		164,509	153,872	+6.91
Investment properties	17	129,164	127,171	+1.57
Property and equipment	18	951,874	918,968	+3.58
Prepaid lease payments for land	19	2,444	2,483	-1.57
Deferred tax assets	24	5,657	16,861	-66.45
Goodwill		50,606	50,606	-
<b>Total assets</b>		<u>79,822,477</u>	<u>77,455,912</u>	+3.06
<b>Liabilities</b>				
Deposits and balances of banks and other financial institutions		2,964,263	1,086,836	+172.74
Financial assets sold under repurchase agreements	20	366,975	420,652	-12.76
Deposits from customers	21	65,009,008	64,815,713	+0.30
Certificates of deposit	22	1,615,577	1,545,562	+4.53
Derivative financial instruments	14	215,497	265,696	-18.89
Other accounts and accruals		652,435	558,495	+16.82
Current tax liabilities		65,364	31,176	+109.66
Loan capital	23	1,894,682	1,852,153	+2.30
Deferred tax liabilities	24	6,789	6,897	-1.57
<b>Total liabilities</b>		<u>72,790,590</u>	<u>70,583,180</u>	+3.13
<b>Equity attributable to owners of the Bank</b>				
Share capital		217,500	217,500	-
Reserves		6,814,387	6,655,232	+2.39
<b>Total equity</b>		<u>7,031,887</u>	<u>6,872,732</u>	+2.32
<b>Total liabilities and equity</b>		<u>79,822,477</u>	<u>77,455,912</u>	+3.06

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the six months ended 30 June 2012*

	Notes	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000 (Restated)	Total HK\$'000 (Restated)
<b>At 1 January 2012</b>										
(as originally stated)		217,500	1,542,817	(182)	33,807	1,388,500	21,648	408,000	3,250,502	6,862,592
Effect of change in accounting policies	2	-	-	-	-	-	-	-	10,140	10,140
<b>At 1 January 2012 (restated)</b>		<b>217,500</b>	<b>1,542,817</b>	<b>(182)</b>	<b>33,807</b>	<b>1,388,500</b>	<b>21,648</b>	<b>408,000</b>	<b>3,260,642</b>	<b>6,872,732</b>
Profit for the period		-	-	-	-	-	-	-	259,749	259,749
Other comprehensive (expense) income for the period		-	-	-	55,284	-	(3,628)	-	-	51,656
Total comprehensive (expense) income for the period		-	-	-	55,284	-	(3,628)	-	259,749	311,405
Final dividend paid for financial year 2011	12	-	-	-	-	-	-	-	(152,250)	(152,250)
Reversal of earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(12,000)	12,000	-
<b>At 30 June 2012 (unaudited)</b>		<b>217,500</b>	<b>1,542,817</b>	<b>(182)</b>	<b>89,091</b>	<b>1,388,500</b>	<b>18,020</b>	<b>396,000</b>	<b>3,380,141</b>	<b>7,031,887</b>
<b>At 1 January 2011</b>										
(as originally stated)		217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,976,973	6,577,929
Effect of change in accounting policies	2	-	-	-	-	-	-	-	8,879	8,879
<b>At 1 January 2011 (restated)</b>		<b>217,500</b>	<b>1,542,817</b>	<b>(182)</b>	<b>106,220</b>	<b>1,388,500</b>	<b>15,101</b>	<b>331,000</b>	<b>2,985,852</b>	<b>6,586,808</b>
Profit for the period		-	-	-	-	-	-	-	409,793	409,793
Other comprehensive (expense) income for the period		-	-	-	(2,139)	-	2,778	-	-	639
Total comprehensive (expense) income for the period		-	-	-	(2,139)	-	2,778	-	409,793	410,432
Final dividend paid for financial year 2010	12	-	-	-	-	-	-	-	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	66,000	(66,000)	-
<b>At 30 June 2011 (unaudited) (restated)</b>		<b>217,500</b>	<b>1,542,817</b>	<b>(182)</b>	<b>104,081</b>	<b>1,388,500</b>	<b>17,879</b>	<b>397,000</b>	<b>3,177,395</b>	<b>6,844,990</b>

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to the shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority.

The general reserve comprises transfers from previous years' retained profits.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*for the six months ended 30 June 2012*

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	309,023	481,500
Adjustments for:		
Net interest income	(400,551)	(386,660)
Depreciation	29,175	26,724
Release of prepaid lease payments for land	33	33
Net losses on disposal of property and equipment	8	11
Net gains on disposal of and fair value adjustments on investment properties	(6,646)	(5,863)
Net gains on disposal of available-for-sale securities	(468)	(7)
Net reversals of impairment allowances on loans and advances	(34,432)	(76,044)
Net (gains) losses on fair value hedge	(727)	23,533
Dividend income from investments	(6,036)	(4,341)
Share of profits of jointly controlled entities	(10,387)	(13,638)
Exchange adjustments	(5,170)	1,671
Operating cash flows before movements in operating assets and liabilities	<u>(126,178)</u>	<u>46,919</u>
(Increase) decrease in operating assets:		
Other accounts	(72,184)	(207,752)
Money at call and short notice with original maturity over three months	263,579	(1,321,161)
Exchange fund bills with original maturity over three months	(56)	(100,506)
Placements with banks and other financial institutions with original maturity over three months	(661,431)	300,499
Financial assets at fair value through profit or loss	329,766	82,417
Bills receivable	10,376	(41,538)
Trade bills	101,568	(148,617)
Other advances to customers	1,004,711	(2,494,280)
Advances to banks and other financial institutions	(2,152,219)	234,664
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	1,388,924	324,504
Financial assets sold under repurchase agreements	(53,677)	524,507
Certificates of deposit	70,015	199,803
Deposits from customers	193,295	(2,611,713)
Other accounts and accruals	70,034	177,647
Derivative financial instruments	(88,161)	17,955
Cash generated from (used in) operations	<u>278,362</u>	<u>(5,016,652)</u>
Hong Kong Profits Tax paid	(5,640)	(6,405)
Overseas tax paid	(9,006)	(1,593)
Interest received	622,913	488,238
Interest paid	<u>(324,545)</u>	<u>(199,997)</u>
<b>NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES</b>	<u><b>562,084</b></u>	<u><b>(4,736,409)</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - continued***for the six months ended 30 June 2012*

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received on available-for-sale securities and held-to-maturity securities	<b>112,589</b>	109,390
Dividends received on investments	<b>6,036</b>	4,341
Dividends received from jointly controlled entities	–	1,050
Purchase of available-for-sale securities	<b>(1,048,593)</b>	(154,711)
Purchase of held-to-maturity securities	<b>(10,512,040)</b>	(2,977,545)
Purchase of property and equipment	<b>(62,141)</b>	(10,516)
Proceeds from sale and redemption of available-for-sale securities	<b>468</b>	52
Proceeds from redemption of held-to-maturity securities	<b>8,101,919</b>	4,748,333
Proceeds from disposals of property and equipment	<b>3</b>	–
Proceeds from disposal of an investment property	<b>4,316</b>	–
<b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>	<b><u>(3,397,443)</u></b>	<b><u>1,720,394</u></b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	<b>(32,820)</b>	(18,870)
Repurchase of loan capital	–	(66,936)
Dividends paid	<b>(152,250)</b>	(152,250)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b><u>(185,070)</u></b>	<b><u>(238,056)</u></b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,020,429)</b>	(3,254,071)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b><u>17,092,730</u></b>	<b><u>17,025,454</u></b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b><u>14,072,301</u></b>	<b><u>13,771,383</u></b>
Represented by:		
Cash and balances with banks and other financial institutions	<b>5,646,106</b>	4,424,490
Money at call and short notice with original maturity of less than three months	<b>6,466,078</b>	10,406,950
Exchange fund bills with original maturity of less than three months	<b>1,799,972</b>	–
Placements with banks and other financial institutions with original maturity of less than three months	<b>1,462,188</b>	60,200
Deposits and balances of banks and other financial institutions with original maturity of less than three months	<b>(1,302,043)</b>	(1,120,257)
	<b><u>14,072,301</u></b>	<b><u>13,771,383</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants:

- amendments to HKFRS 7 Financial instruments: Disclosures - Transfers of financial assets; and
- amendments to HKAS 12 Deferred tax: Recovery of underlying assets.

#### **Amendments to HKAS 12 Deferred tax: Recovery of underlying assets**

Under the amendments to HKAS 12 Deferred tax: Recovery of underlying assets, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group’s investment property portfolios and concluded that the Group’s investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of the investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties located in Hong Kong on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group’s deferred tax assets increased by HK\$10,140,000 as at 31 December 2011, with the corresponding adjustment being recognised in retained earnings. In addition, the application of the amendments has resulted in the Group’s income tax expense for the six months ended 30 June 2012 and 30 June 2011 being reduced by HK\$633,000 and HK\$812,000 respectively and hence resulted in the profit for the six months ended 30 June 2012 and 30 June 2011 increased by HK\$633,000 and HK\$812,000 respectively.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 2. PRINCIPAL ACCOUNTING POLICIES - continued

#### Summary of the effect of the above changes in accounting policies

The effect of changes in accounting policies described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated income statement is as follows:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Decrease in taxation - deferred tax	<u>633</u>	<u>812</u>
Increase in profit for the period	<u>633</u>	<u>812</u>

The effect of changes in accounting policies described above on the financial position of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2011 is as follows:

	As at	Adjustment	As at
	31 December 2011		31 December 2011
	HK\$'000	HK\$'000	HK\$'000
	(originally stated)		(restated)
Deferred tax assets	<u>6,721</u>	<u>10,140</u>	<u>16,861</u>
Total effect on net assets	<u>6,721</u>	<u>10,140</u>	<u>16,861</u>
Retained profits, total effect on equity	<u>3,250,502</u>	<u>10,140</u>	<u>3,260,642</u>

The effect of changes in accounting policies described above on the financial position of the Group as at the beginning of the comparative period, i.e. 1 January 2011 is as follows:

	As at	Adjustment	As at
	1 January 2011		1 January 2011
	HK\$'000	HK\$'000	HK\$'000
	(originally stated)		(restated)
Deferred tax liabilities	<u>(20,357)</u>	<u>8,879</u>	<u>(11,478)</u>
Total effect on net assets	<u>(20,357)</u>	<u>8,879</u>	<u>(11,478)</u>
Retained profits, total effect on equity	<u>2,976,973</u>	<u>8,879</u>	<u>2,985,852</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 3. SEGMENT INFORMATION

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker of the Group (being the Executive Committee of the Bank) for the purpose of allocating resources to segments and assessing their performance, are as follows:

1. Corporate and retail banking
2. Treasury activities
3. Securities business
4. Others comprising investment holding, insurance, other investment advisory services and property investments.

The following is an analysis of the Group's revenue and results by reportable and operating segment for the periods under review:

#### Six months ended 30 June 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	503,064	278,642	969	-	-	782,675
Interest expense to external customers	(289,973)	(92,151)	-	-	-	(382,124)
Inter-segment interest income (Note 1)	123,363	-	-	-	(123,363)	-
Inter-segment interest expense (Note 1)	-	(123,363)	-	-	123,363	-
Net interest income	336,454	63,128	969	-	-	400,551
Fee and commission income	65,368	-	56,691	-	-	122,059
Fee and commission expense	(29,885)	-	(297)	-	-	(30,182)
Net gains on financial instruments at fair value through profit or loss	218	28,105	-	35	-	28,358
Net gains on fair value hedge	-	727	-	-	-	727
Other operating income	39,960	60,328	-	22,372	-	122,660
Segment revenue						
Total operating income	412,115	152,288	57,363	22,407	-	644,173
Comprising:						
- segment revenue from external customers	288,752	275,651	57,363	22,407		
- inter-segment transactions	123,363	(123,363)	-	-		
Operating expenses (Note 2)	(230,296)	(14,289)	(32,904)	(5,225)	-	(282,714)
Reversal of impairment allowances on loans and advances	34,432	-	-	-	-	34,432
Net losses on disposal of property and equipment	-	-	-	(8)	-	(8)
Net gains on disposal of available-for-sale securities	-	-	-	468	-	468
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	6,646	-	6,646
Segment profit	216,251	137,999	24,459	24,288	-	402,997
Unallocated corporate expenses						(104,361)
Share of profits of jointly controlled entities						10,387
Profit before taxation						309,023

Note: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposit interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*for the six months ended 30 June 2012*

### 3. SEGMENT INFORMATION – continued

As at 30 June 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	50,379,061	28,304,577	229,243	416,831	79,329,712
Interests in jointly controlled entities					164,509
Unallocated assets					<u>328,256</u>
Consolidated total assets					<u><u>79,822,477</u></u>
<b>Liabilities</b>					
Segment liabilities	65,306,521	7,124,249	150,909	60,325	72,642,004
Unallocated liabilities					<u>148,586</u>
Consolidated total liabilities					<u><u>72,790,590</u></u>

### Other information

Six months ended 30 June 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	27,903	55	234	36	33,913	62,141
Depreciation	17,673	802	2,856	36	7,808	29,175
Release of prepaid lease payments for land	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*for the six months ended 30 June 2012*

### 3. SEGMENT INFORMATION - continued

**Six months ended 30 June 2011**

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	359,703	263,577	1,602	–	–	624,882
Interest expense to external customers	(181,651)	(56,571)	–	–	–	(238,222)
Inter-segment interest income ( <i>Note 1</i> )	65,742	–	–	–	(65,742)	–
Inter-segment interest expense ( <i>Note 1</i> )	–	(65,742)	–	–	65,742	–
Net interest income	243,794	141,264	1,602	–	–	386,660
Fee and commission income	59,424	–	82,168	–	–	141,592
Fee and commission expense	(27,596)	–	(296)	–	–	(27,892)
Net gains (losses) on financial instruments at fair value through profit or loss	116	(24,727)	–	(50)	–	(24,661)
Net losses on fair value hedge	–	(23,533)	–	–	–	(23,533)
Other operating income (expenses)	274,578	35,099	(2)	15,544	–	325,219
Segment revenue						
Total operating income	<u>550,316</u>	<u>128,103</u>	<u>83,472</u>	<u>15,494</u>	<u>–</u>	<u>777,385</u>
Comprising:						
- segment revenue from external customers	484,574	193,845	83,472	15,494		
- inter-segment transactions	65,742	(65,742)	–	–		
Operating expenses ( <i>Note 2</i> )	(242,867)	(14,622)	(35,067)	(4,663)	–	(297,219)
Reversal of impairment allowances on loans and advances	76,044	–	–	–	–	76,044
Net losses on disposal of property and equipment	(11)	–	–	–	–	(11)
Net gains on disposal of available-for-sale securities	–	–	–	7	–	7
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	5,863	–	5,863
Segment profit	<u>383,482</u>	<u>113,481</u>	<u>48,405</u>	<u>16,701</u>	<u>–</u>	562,069
Unallocated corporate expenses						(94,207)
Share of profits of jointly controlled entities						<u>13,638</u>
Profit before taxation						<u>481,500</u>

*Note: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposit interest rates.*

*2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.*

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 3. SEGMENT INFORMATION – continued

As at 31 December 2011

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000 (Restated)
<b>Assets</b>					
Segment assets	50,025,308	26,405,590	130,014	408,662	76,969,574
Interests in jointly controlled entities	–	–	–	153,872	153,872
Other unallocated corporate assets (restated)					<u>312,186</u>
Consolidated total assets					<u><u>77,435,632</u></u>
<b>Liabilities</b>					
Segment liabilities	65,096,187	5,212,929	69,744	56,972	70,435,832
Unallocated corporate liabilities					<u>147,348</u>
Consolidated total liabilities					<u><u>70,583,180</u></u>

### Other information

Six months ended 30 June 2011

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	5,771	407	162	35	4,141	10,516
Depreciation	15,135	794	2,892	55	7,848	26,724
Release of prepaid lease payments for land	<u>33</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>33</u>

Segment profit represents the profit earned by each segment without allocation of central administration costs and share of results of jointly-controlled entities. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance. There is no operating income with a single external customer amounting to or exceeding 10% of the Group's total operating income.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 3. SEGMENT INFORMATION – continued

#### Geographical information

Geographical information is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

	Six months ended 30 June 2012				As at 30 June 2012		
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Non- current assets	Capital expenditure during the period
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	591,532	267,533	77,775,689	72,132,693	19,633,515	1,286,394	61,841
Macau and Shantou, Mainland China	44,782	36,361	1,455,167	585,241	251,474	11,976	291
America	7,859	5,129	591,621	72,656	24,474	161	9
Total	<u>644,173</u>	<u>309,023</u>	<u>79,822,477</u>	<u>72,790,590</u>	<u>19,909,463</u>	<u>1,298,531</u>	<u>62,141</u>

	Six months ended 30 June 2011				As at 31 December 2011		
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Non- current assets	Capital expenditure during the year
	HK\$'000	HK\$'000	HK\$'000 (Restated)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (restated)	759,127	472,793	75,418,775	69,606,383	17,436,041	1,240,016	247,621
Macau and Shantou, Mainland China	11,715	5,132	1,490,218	889,429	256,858	12,913	234
America	6,543	3,575	546,919	87,368	37,578	172	96
Total	<u>777,385</u>	<u>481,500</u>	<u>77,455,912</u>	<u>70,583,180</u>	<u>17,730,477</u>	<u>1,253,101</u>	<u>247,951</u>

*Note: Total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial instruments at fair value through profit or loss, net gains (losses) on fair value hedge and other operating income.*

*Non-current assets consist of interests in jointly controlled entities, investment properties, property and equipment, prepaid lease payments for land and goodwill.*

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 4. NET INTEREST INCOME

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Interest income		
Short-term funds and placements	168,401	116,796
Investments in securities	135,176	135,838
Loans and advances	435,549	349,031
Interest rate swaps	43,549	23,217
	<u>782,675</u>	<u>624,882</u>
Interest expense		
Deposits and balances from banks and customers	(299,790)	(186,311)
Financial assets sold under repurchase agreements	(3,759)	(852)
Interest rate swaps	(27,061)	(14,200)
Certificates of deposit	(17,861)	(8)
Loan capital in issue	(33,653)	(36,851)
	<u>(382,124)</u>	<u>(238,222)</u>
Net interest income	<u>400,551</u>	<u>386,660</u>
Included within interest income		
Interest income on impaired loans and advances	<u>312</u>	<u>243</u>

Included within interest income and interest expense are HK\$735,029,000 (2011: HK\$582,191,000) and HK\$355,063,000 (2011: HK\$224,022,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in securities of HK\$135,176,000 (2011: HK\$135,838,000).

### 5. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Fee and commission income		
Securities business	56,691	82,168
Credit lines	7,445	6,359
Trade finance	5,425	5,440
Credit card services	32,863	30,208
Agency services	12,095	11,390
Others	7,540	6,027
Total fee and commission income	<u>122,059</u>	<u>141,592</u>
Less: Fee and commission expense	<u>(30,182)</u>	<u>(27,892)</u>
Net fee and commission income	<u>91,877</u>	<u>113,700</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 6. NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS / NET GAINS (LOSSES) ON FAIR VALUE HEDGE

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Net gains (losses) on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss	(59,825)	(6,739)
- held for trading	<u>88,183</u>	<u>(17,922)</u>
	<u>28,358</u>	<u>(24,661)</u>
Net gains (losses) on fair value hedge		
- net losses on hedged items attributable to the hedged risk	(21,004)	(40,989)
- net gains on hedging instruments	<u>21,731</u>	<u>17,456</u>
	<u>727</u>	<u>(23,533)</u>

### 7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Dividend income	6,036	4,341
- Listed investments	<u>3,336</u>	2,341
- Unlisted investments	<u>2,700</u>	2,000
Net exchange gain and net gain from foreign currency contracts	60,328	35,099
Gross rents from investment properties	<u>6,028</u>	7,094
Less: Outgoings	<u>(524)</u>	(496)
Net rental income	5,504	6,598
Safe deposit box rentals	16,366	14,889
Insurance underwriting premium less claims and commission expense	10,616	4,605
Other banking services income	22,220	22,664
Recovery of amounts previously written-off in relation to Minibonds Repurchase Scheme ( <i>Note</i> )	-	234,632
Others	<u>1,590</u>	2,391
	<u>122,660</u>	<u>325,219</u>

*Note: The Bank announced on 28 March 2011 that it has entered into an agreement ("Agreement") with the Lehman Brothers, the trustee and the receiver for the Lehman Brothers Minibonds ("Minibonds"), and fifteen other distributing banks in relation to the recovery of the Minibonds' underlying collateral ("Collateral"). Pursuant to the Agreement, the Bank received recoveries of amounts previously written-off in the years 2009 and 2010 (included in "Expenses relating to Minibonds Repurchase Scheme" in the consolidated financial statements for the years 2009 and 2010) from the Collateral during the period, net of ex-gratia payments to customers who held the Minibonds, amounting to HK\$234,632,000.*



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 8. OPERATING EXPENSES

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Auditor's remuneration	1,950	1,901
Staff costs (including directors' emoluments)		
- Salaries and other costs	209,466	198,011
- Retirement benefits scheme contributions	15,189	13,983
Total staff costs	224,655	211,994
Depreciation	29,175	26,724
Release of prepaid lease payments for land	33	33
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land:		
- Rentals and rates for premises	21,574	23,182
- Others	10,629	8,892
Other operating expenses	99,059	118,700
	<u>387,075</u>	<u>391,426</u>

### 9. GOODWILL

For the six-month period ended 30 June 2012, the management has reviewed the goodwill for impairment testing purposes. The review comprised of a comparison of the carrying amount and value in use of an acquired subsidiary (the cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on five-year financial budgets approved by management of the subsidiary and with a stable growth beyond the five-year projection period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and estimated value. Key assumptions include the expected growth in revenues and selection of discount rates of 12% (2011: 12%).

The management of the Group determines that there is no impairment loss on the goodwill for the six-month period ended 30 June 2012 and 30 June 2011.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 10. TAXATION

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

### 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$259,749,000 (2011: HK\$409,793,000 (restated)) and on 435,000,000 (2011: 435,000,000) ordinary shares in issue during the period.

No diluted earnings per share was presented as there was no potential ordinary share were in issue during both periods.

### 12. DIVIDENDS

On 24 May 2012, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final cash dividend for 2011.

On 5 May 2011, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final cash dividend for 2010.

Subsequent to the end of the interim period, the board of directors has declared that a total amount of interim cash dividend in respect of the financial year ending 31 December 2012 of HK\$47,850,000 (2011: HK\$65,250,000) at a rate of HK\$0.11 (2011: HK\$0.15) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 20 September 2012.

### 13. CASH AND SHORT-TERM FUNDS

	<b>30 June 2012</b>	<b>31 December 2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash and balances with banks and other financial institutions	<b>5,646,106</b>	6,393,092
Money at call and short notice	<b>7,371,236</b>	8,717,815
Exchange fund bills	<b>2,048,485</b>	3,548,369
	<b><u>15,065,827</u></b>	<u>18,659,276</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2012		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
- Foreign currency forward contracts	5,676,885	22,423	22,364
- Interest rate swaps	1,090,300	4,491	96,902
- Cross-currency interest rate swap	38,840	-	4,945
Derivatives designated as hedging instruments			
- Interest rate swaps	4,204,565	162,335	79,941
- Cross-currency interest rate swaps	233,306	-	11,345
		<u>189,249</u>	<u>215,497</u>

	31 December 2011		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading			
- Foreign currency forward contracts	1,318,444	8,181	5,783
- Interest rate swaps	1,359,407	5,320	190,608
- Cross-currency interest rate swap	40,360	-	6,719
Derivatives designated as hedging instruments			
- Interest rate swaps	3,161,088	116,055	51,907
- Cross-currency interest rate swaps	233,306	-	10,679
		<u>129,556</u>	<u>265,696</u>

During the period, the Group entered into a higher volume of foreign currency forward contracts to offset the exchange rate exposures as a result of certain transactions in the Group's treasury activities which were denominated in foreign currencies.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*for the six months ended 30 June 2012*

### 15. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
<b>30 June 2012</b>					
Equity securities:					
Listed in Hong Kong	254	–	166,367	–	166,621
Listed overseas	–	–	7,486	–	7,486
	<u>254</u>	<u>–</u>	<u>173,853</u>	<u>–</u>	<u>174,107</u>
Unlisted	–	–	35,603	–	35,603
	<u>254</u>	<u>–</u>	<u>209,456</u>	<u>–</u>	<u>209,710</u>
Debt securities:					
Certificates of deposit	–	–	–	5,024,503	5,024,503
Structured products	–	436,759	–	–	436,759
Convertible bonds	–	1,078,810	–	–	1,078,810
Other debt securities - Unlisted	–	–	2,774,076	5,673,700	8,447,776
	<u>–</u>	<u>1,515,569</u>	<u>2,774,076</u>	<u>10,698,203</u>	<u>14,987,848</u>
Total:					
Listed in Hong Kong	254	–	166,367	–	166,621
Listed overseas	–	–	7,486	–	7,486
Unlisted	–	1,515,569	2,809,679	10,698,203	15,023,451
	<u>254</u>	<u>1,515,569</u>	<u>2,983,532</u>	<u>10,698,203</u>	<u>15,197,558</u>
Market value of listed securities:					
Listed in Hong Kong	254	–	166,367	–	166,621
Listed overseas	–	–	7,486	–	7,486
	<u>254</u>	<u>–</u>	<u>173,853</u>	<u>–</u>	<u>174,107</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	137,203	137,203
Public sector entities	–	–	56,205	239,597	295,802
Banks and other financial institutions	36	436,759	344,031	9,361,436	10,142,262
Corporate entities	218	1,078,810	2,578,228	959,967	4,617,223
Others	–	–	5,068	–	5,068
	<u>254</u>	<u>1,515,569</u>	<u>2,983,532</u>	<u>10,698,203</u>	<u>15,197,558</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*for the six months ended 30 June 2012*

### 15. INVESTMENTS IN SECURITIES – continued

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
<b>31 December 2011</b>					
Equity securities:					
Listed in Hong Kong	307	–	166,834	–	167,141
Listed overseas	–	–	6,952	–	6,952
	307	–	173,786	–	174,093
Unlisted	–	–	33,053	–	33,053
	307	–	206,839	–	207,146
Debt securities:					
Certificates of deposit	–	–	–	1,571,244	1,571,244
Structured products	–	417,647	–	–	417,647
Convertible bonds	–	1,427,635	–	–	1,427,635
Other debt securities - Unlisted	–	–	1,639,646	6,716,838	8,356,484
	–	1,845,282	1,639,646	8,288,082	11,773,010
Total:					
Listed in Hong Kong	307	–	166,834	–	167,141
Listed overseas	–	–	6,952	–	6,952
Unlisted	–	1,845,282	1,672,699	8,288,082	11,806,063
	307	1,845,282	1,846,485	8,288,082	11,980,156
Market value of listed securities:					
Listed in Hong Kong	307	–	166,834	–	167,141
Listed overseas	–	–	6,952	–	6,952
	307	–	173,786	–	174,093
As analysed by issuing entities:					
Central government and central banks	–	–	–	130,797	130,797
Public sector entities	–	–	56,566	185,187	241,753
Banks and other financial institutions	58	417,647	255,574	6,823,243	7,496,522
Corporate entities	249	1,427,635	1,529,784	1,148,855	4,106,523
Others	–	–	4,561	–	4,561
	307	1,845,282	1,846,485	8,288,082	11,980,156

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*for the six months ended 30 June 2012*

### 15. INVESTMENTS IN SECURITIES – continued

For the equity securities classified as available-for-sale financial instruments, impairment losses of approximately HK\$65,583,000 (31 December 2011: HK\$65,583,000) has been recognised by the Group.

Unlisted equity securities classified as available-for-sale held by the Group amounting to approximately HK\$35,016,000 (31 December 2011: HK\$32,974,000) are measured at cost less impairment because their fair value cannot be reliably measured. No impairment has been recognised at the reporting date.

Certain held-to-maturity certificates of deposit of approximately HK\$15,515,000 (31 December 2011: HK\$15,534,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code. The certificates of deposit classified as held-to-maturity securities held by the Group are mainly issued by the banks in Hong Kong and the Hong Kong branch of banks from the People's Republic of China ("PRC"). The other unlisted debt securities classified as held-to-maturity securities held by the Group are mainly guaranteed or issued by corporates and financial institutions. These corporates are mainly from the PRC and Hong Kong.

Debt securities classified as held-to-maturity amounted to approximately HK\$137,203,000 (31 December 2011: HK\$130,797,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China.

The convertible bonds and the debt securities classified as available-for-sale securities held by the Group are mainly guaranteed or issued by corporates and financial institutions. These corporates are mainly from the PRC and Hong Kong.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 16. ADVANCES AND OTHER ACCOUNTS

	<b>30 June 2012</b>	<b>31 December 2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers		
Bills receivable	393,353	403,729
Trade bills	200,913	302,481
Other advances to customers	39,646,379	40,632,274
	<u>40,240,645</u>	<u>41,338,484</u>
Interest receivable	209,753	162,580
Impairment allowances		
- Individually assessed	(28,218)	(40,553)
- Collectively assessed	(168,892)	(172,015)
	<u>40,253,288</u>	<u>41,288,496</u>
Advances to banks and other financial institutions	3,657,628	1,505,409
	<u>43,910,916</u>	<u>42,793,905</u>
Other accounts	526,235	454,051
	<u>44,437,151</u>	<u>43,247,956</u>

Included in the "Other Accounts" of the Group is an amount of approximately HK\$220,723,000 (31 December 2011: HK\$200,762,000) placed as reserve funds with the financial institutions in the People's Republic of China (the "PRC") by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC. Among which, HK\$56,000,000 (2011: HK\$88,493,000) and HK\$320,000 (2011: HK\$19,249,000) are the mandatory reserve deposit and surplus reserve deposits placed with the PRC respectively; HK\$164,403,000 (2011: HK\$93,020,000) is the fixed deposits placed with other financial institutions in the PRC.

Details of the impaired loans are as follows:

	<b>30 June 2012</b>	<b>31 December 2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Gross impaired loans	28,326	78,189
Less: Impairment allowances under individual assessment	(28,218)	(40,553)
Net impaired loans	<u>108</u>	<u>37,636</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.07%</u>	<u>0.19%</u>
Market value of collateral pledged for impaired loans	<u>69,226</u>	<u>107,078</u>

In addition to the individually assessed loans impairment allowance, the Group has also provided collectively assessed loans impairment allowance for loans that are individually insignificant or advances where no impairment has been identified individually.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 17. INVESTMENT PROPERTIES

	<b>30 June 2012</b>	<b>31 December 2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January	127,171	116,400
Disposals	(1,500)	–
Net increase in fair value recognised in the condensed consolidated income statement	3,830	9,065
Exchange adjustments	<u>(337)</u>	<u>1,706</u>
At 30 June / 31 December	<u><b>129,164</b></u>	<u><b>127,171</b></u>

Net gains on disposal of and fair value adjustments on investment properties:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net gain on disposal of investment properties	2,816	–
Net gain on fair value adjustments on investment properties	<u>3,830</u>	<u>5,863</u>
	<u><b>6,646</b></u>	<u><b>5,863</b></u>

Investment properties owned by the Group were revalued on 30 June 2012 on an open market value basis by Vigers Hong Kong Limited, independent professional qualified valuers. The market value is mainly arrived at by reference to comparable market transactions for similar properties.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*for the six months ended 30 June 2012*

### 18. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2012	562,418	372,392	505,334	1,440,144
Additions	13,003	2,894	46,244	62,141
Disposals	–	–	(3,023)	(3,023)
Exchange adjustments	–	–	(60)	(60)
At 30 June 2012	575,421	375,286	548,495	1,499,202
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2012	90,078	53,963	377,135	521,176
Depreciation	5,431	4,134	19,610	29,175
Eliminated on disposals	–	–	(3,012)	(3,012)
Exchange adjustments	–	–	(11)	(11)
At 30 June 2012	95,509	58,097	393,722	547,328
<b>CARRYING AMOUNTS</b>				
At 30 June 2012	479,912	317,189	154,773	951,874
	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2011	396,264	316,663	515,369	1,228,296
Additions	166,154	55,729	26,068	247,951
Disposals	–	–	(36,330)	(36,330)
Exchange adjustments	–	–	227	227
At 31 December 2011	562,418	372,392	505,334	1,440,144
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2011	83,303	47,266	367,956	498,525
Depreciation	6,775	6,697	41,270	54,742
Eliminated on disposals	–	–	(32,202)	(32,202)
Exchange adjustments	–	–	111	111
At 31 December 2011	90,078	53,963	377,135	521,176
<b>CARRYING AMOUNTS</b>				
At 31 December 2011	472,340	318,429	128,199	918,968

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 19. PREPAID LEASE PAYMENTS FOR LAND

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,483	2,535
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	<u>(6)</u>	<u>14</u>
Net book value at 30 June / 31 December	<u>2,444</u>	<u>2,483</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,378</u>	<u>2,417</u>
Total	<u>2,444</u>	<u>2,483</u>

### 20. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	263,479	228,439
Held-to-maturity	<u>103,496</u>	<u>192,213</u>
	<u>366,975</u>	<u>420,652</u>

As at 30 June 2012, debt securities which are classified as available-for-sale and held-to-maturity investment with carrying amount of approximately HK\$319,325,000 (31 December 2011: HK\$295,717,000) and HK\$117,870,000 (31 December 2011: HK\$240,883,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

### 21. DEPOSITS FROM CUSTOMERS

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Demand deposits and current accounts	4,748,056	4,501,674
Savings deposits	18,084,062	18,357,575
Time, call and notice deposits	<u>42,176,890</u>	<u>41,956,464</u>
	<u>65,009,008</u>	<u>64,815,713</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 22. CERTIFICATES OF DEPOSIT

The certificates of deposit are measured at amortised cost with a total carrying amount of HK\$1,615,577,000 as at 30 June 2012 (31 December 2011: HK\$1,545,562,000). Included in certificates of deposit are certificates of deposit of approximately HK\$62,051,000 (31 December 2011: HK\$248,151,000) issued at discount with zero coupon rate which will mature in 2012 and HK\$100,000,000 (31 December 2011: HK\$100,000,000) issued at the rate of three-month HIBOR plus 1% which will mature in 2013. The remaining certificates of deposit of approximately HK\$1,453,526,000 (31 December 2011: HK\$1,197,411,000) were issued at interest rate between 1.6% to 2.9% (2011: 1.2% to 2.2%) per annum which will mature in 2012 and 2013. All certificates of deposit issued are not secured by any collateral.

### 23. LOAN CAPITAL

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
US\$225 million fixed rate subordinated notes due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Note (a) & (b))	<u>1,894,682</u>	<u>1,852,153</u>

Notes:

(a) This represented subordinated notes qualifying as tier 2 capital with face value of US\$225,000,000 issued on 5 November 2010. The notes will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the notes no longer fully qualify as term subordinated debts for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the notes by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the notes shall thereafter constitute unsubordinated obligations and the rate of interest on the notes shall be reduced from 6% per annum to 5.5% per annum.

(b) Subordinated notes issued are not secured by any collateral.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 24. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2012 HK\$'000	31 December 2011 HK\$'000 (Restated)
Deferred tax assets	5,657	16,861
Deferred tax liabilities	<u>(6,789)</u>	<u>(6,897)</u>
	<u>(1,132)</u>	<u>9,964</u>

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2012 (as originally stated)	10,540	(27,869)	13,014	2,797	1,694	176
Effect of change in accounting policies	-	-	(10,140)	-	-	(10,140)
At 1 January 2012 (restated)	10,540	(27,869)	2,874	2,797	1,694	(9,964)
(Credit) charge to consolidated income statement for the period	(24)	513	(49)	-	-	440
Charge to other comprehensive income for the period	-	-	-	10,656	-	10,656
At 30 June 2012	<u>10,516</u>	<u>(27,356)</u>	<u>2,825</u>	<u>13,453</u>	<u>1,694</u>	<u>1,132</u>
At 1 January 2011 (as originally stated)	13,302	(20,031)	11,191	15,895	-	20,357
Effect of change in accounting policies	-	-	(8,879)	-	-	(8,879)
At 1 January 2011 (restated)	13,302	(20,031)	2,312	15,895	-	11,478
(Credit) charge to consolidated income statement for the year	(2,762)	(7,838)	562	-	-	(10,038)
(Credit) charge to other comprehensive income for the year	-	-	-	(13,098)	1,694	(11,404)
At 31 December 2011 (restated)	<u>10,540</u>	<u>(27,869)</u>	<u>2,874</u>	<u>2,797</u>	<u>1,694</u>	<u>(9,964)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 25. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on maturity information provided to and reviewed by management, is shown below:

	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Past due / Undated HK\$'000	Total HK\$'000
<b>At 30 June 2012</b>								
<b>Assets</b>								
Cash and short-term funds	5,723,680	9,003,360	338,787	-	-	-	-	15,065,827
Placements with banks and other financial institutions	-	-	2,720,700	907,738	-	-	-	3,628,438
Derivative financial instruments	-	626	8,222	13,821	174	166,406	-	189,249
Financial assets at fair value through profit or loss	-	45,610	-	334,627	1,135,332	-	254	1,515,823
Available-for-sale securities	-	-	-	-	2,167,241	606,835	209,456	2,983,532
Held-to-maturity securities	-	1,179,612	3,179,527	3,159,781	2,937,180	242,103	-	10,698,203
Advances to customers	1,726,924	3,855,613	3,672,913	6,052,871	12,605,172	11,804,342	522,810	40,240,645
Advances to banks and other financial institutions	-	547,836	1,268,251	1,841,541	-	-	-	3,657,628
Other financial assets	287,337	118,034	114,221	199,749	615	-	(181,078)	538,878
<b>Total financial assets</b>	<b>7,737,941</b>	<b>14,750,691</b>	<b>11,302,621</b>	<b>12,510,128</b>	<b>18,845,714</b>	<b>12,819,686</b>	<b>551,442</b>	<b>78,518,223</b>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	19,843	1,923,650	256,494	764,276	-	-	-	2,964,263
Financial assets sold under repurchase agreements	-	366,975	-	-	-	-	-	366,975
Deposits from customers	22,884,189	22,751,224	13,986,921	4,632,268	754,406	-	-	65,009,008
Certificates of deposit	-	-	644,377	871,200	100,000	-	-	1,615,577
Derivative financial instruments	-	5,845	41,385	133,944	34,323	-	-	215,497
Loan capital	-	-	-	-	-	1,894,682	-	1,894,682
Other financial liabilities	404,893	60,408	73,773	88,209	25,152	-	-	652,435
<b>Total financial liabilities</b>	<b>23,308,925</b>	<b>25,108,102</b>	<b>15,002,950</b>	<b>6,489,897</b>	<b>913,881</b>	<b>1,894,682</b>	<b>-</b>	<b>72,718,437</b>
<b>Net position</b>								
<b>- total financial assets and liabilities</b>	<b>(15,570,984)</b>	<b>(10,357,411)</b>	<b>(3,700,329)</b>	<b>6,020,231</b>	<b>17,931,833</b>	<b>10,925,004</b>	<b>551,442</b>	<b>5,799,786</b>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	814,188	2,495,363	1,714,952	-	-	-	5,024,503
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	45,610	-	334,627	1,135,332	-	-	1,515,569
Available-for-sale securities	-	-	-	-	2,167,241	606,835	-	2,774,076
Held-to-maturity securities	-	1,179,612	3,179,527	3,159,781	2,937,180	242,103	-	10,698,203
	-	1,225,222	3,179,527	3,494,408	6,239,753	848,938	-	14,987,848

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 25. MATURITY PROFILES - continued

	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Past due / Undated HK\$'000	Total HK\$'000
<b>At 31 December 2011</b>								
<b>Assets</b>								
Cash and short-term funds	6,470,760	11,849,802	338,714	-	-	-	-	18,659,276
Placements with banks and other financial institutions	-	-	1,596,870	572,137	-	-	-	2,169,007
Derivative financial instruments	-	2,603	3,985	3,719	281	118,968	-	129,556
Financial assets at fair value through profit or loss	-	-	185,947	371,556	1,287,779	-	307	1,845,589
Available-for-sale securities	-	-	-	-	1,258,736	380,910	206,839	1,846,485
Held-to-maturity securities	-	1,490,948	193,197	3,597,047	2,764,008	242,882	-	8,288,082
Advances to customers	1,767,331	2,856,018	3,991,951	6,718,317	14,051,611	11,766,665	186,591	41,338,484
Advances to banks and other financial institutions	-	-	745,720	759,689	-	-	-	1,505,409
Other financial assets	238,966	132,095	69,612	158,736	667	-	(196,013)	404,063
<b>Total financial assets</b>	<u>8,477,057</u>	<u>16,331,466</u>	<u>7,125,996</u>	<u>12,181,201</u>	<u>19,363,082</u>	<u>12,509,425</u>	<u>197,724</u>	<u>76,185,951</u>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	18,820	998,016	70,000	-	-	-	-	1,086,836
Financial assets sold under repurchase agreements	-	-	137,940	282,712	-	-	-	420,652
Deposits from customers	22,875,493	24,488,399	12,247,213	4,489,832	714,776	-	-	64,815,713
Certificates of deposit	-	99,948	79,844	1,265,770	100,000	-	-	1,545,562
Derivative financial instruments	-	4,097	27,364	25,606	184,459	24,170	-	265,696
Loan capital	-	-	-	-	-	1,852,153	-	1,852,153
Other financial liabilities	339,419	56,814	62,330	75,793	24,139	-	-	558,495
<b>Total financial liabilities</b>	<u>23,233,732</u>	<u>25,647,274</u>	<u>12,624,691</u>	<u>6,139,713</u>	<u>1,023,374</u>	<u>1,876,323</u>	<u>-</u>	<u>70,545,107</u>
<b>Net position</b>								
<b>- total financial assets and liabilities</b>	<u>(14,756,675)</u>	<u>(9,315,808)</u>	<u>(5,498,695)</u>	<u>6,041,488</u>	<u>18,339,708</u>	<u>10,633,102</u>	<u>197,724</u>	<u>5,640,844</u>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	879,341	12,340	661,043	18,520	-	-	1,571,244
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	185,947	371,556	1,287,779	-	-	1,845,282
Available-for-sale securities	-	-	-	-	1,258,736	380,910	-	1,639,646
Held-to-maturity securities	-	1,490,948	193,197	3,597,047	2,764,008	242,882	-	8,288,082
	<u>-</u>	<u>1,490,948</u>	<u>379,144</u>	<u>3,968,603</u>	<u>5,310,523</u>	<u>623,792</u>	<u>-</u>	<u>11,773,010</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2012

### 26. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest and rental expenses	
	Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Enterprises having significant influence on the Group	<u>3,318</u>	<u>3,867</u>	<u>10,481</u>	<u>12,620</u>
Jointly controlled entities	<u>9,316</u>	<u>8,257</u>	<u>1,414</u>	<u>1,466</u>
Key management personnel ( <i>Note</i> )	<u>2,733</u>	<u>2,926</u>	<u>5,385</u>	<u>3,863</u>

At the end of the reporting period, the Group had the following material outstanding balances with related parties:

	Loan to related parties		Deposit from related parties	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Enterprises having significant influence on the Group	<u>35,696</u>	<u>–</u>	<u>191,162</u>	<u>154,105</u>
Jointly controlled entities	<u>35,456</u>	<u>41,409</u>	<u>96,364</u>	<u>36,433</u>
Key management personnel ( <i>Note</i> )	<u>557,375</u>	<u>790,037</u>	<u>674,862</u>	<u>507,908</u>

*Note: Includes key management personnel, close family members of key management personnel and entity that is controlled or jointly controlled, directly or indirectly, by key management personnel.*

### Compensation of key management personnel

The remuneration of directors and other members of the key management during the period are as follows:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Short term benefits	<u>30,044</u>	<u>28,304</u>
Post employment benefits	<u>2,308</u>	<u>2,117</u>
	<u>32,352</u>	<u>30,421</u>

The remuneration of directors and key management is reviewed by Remuneration Committee having regard to the performance of individuals and market trends.

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*for the six months ended 30 June 2012*

### **27. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION**

Card Alliance Company Limited  
Chong Hing Commodities and Futures Limited  
Chong Hing Finance Limited  
Chong Hing Information Technology Limited  
Chong Hing Insurance Company Limited  
Chong Hing (Management) Limited  
Chong Hing (Nominees) Limited  
Chong Hing Securities Limited  
Gallbraith Limited  
Hero Marker Limited  
Right Way Investments Limited  
Top Benefit Enterprise Limited

### **28. COMPARATIVE AMOUNTS**

Certain comparative figures have been reclassified to conform with the current period's presentation.



## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and / or business activities of the borrowers are as follows:

	30 June 2012				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
				(Note)	
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,708,713	1,818	-	732,291	-
- Property investment	8,540,527	-	1,774	8,504,802	1,774
- Financial concerns	1,853,218	-	-	1,038,723	-
- Stockbrokers	477,431	130	-	392,938	-
- Wholesale and retail trade	1,298,000	4,915	3,243	908,886	3,243
- Manufacturing	1,676,523	670	2,561	906,474	2,561
- Transport and transport equipment	666,969	-	-	477,721	-
- Recreational activities	2,078	9	-	2,078	-
- Information technology	354	53	-	108	-
- Others	8,774,931	32,623	4,627	3,812,218	4,627
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	501,659	-	-	501,657	-
- Loans for the purchase of other residential properties	6,483,930	252	-	6,481,590	-
- Credit card advances	84,853	4,077	345	6,643	420
- Others	1,694,480	6,981	2,173	1,336,447	2,173
	<u>33,763,666</u>	<u>51,528</u>	<u>14,723</u>	<u>25,102,576</u>	<u>14,798</u>
Trade finance	1,012,957	26,122	11,150	397,835	11,150
Loans for use outside Hong Kong	5,464,022	91,242	2,345	2,664,817	2,378
	<u>40,240,645</u>	<u>168,892</u>	<u>28,218</u>	<u>28,165,228</u>	<u>28,326</u>

Note: Loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	31 December 2011				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
	<i>(Note)</i>				
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,320,064	2,531	-	725,399	-
- Property investment	8,865,657	-	2,120	8,761,108	1,773
- Financial concerns	2,429,291	-	-	1,285,610	-
- Stockbrokers	577,841	179	-	518,642	-
- Wholesale and retail trade	1,562,043	6,081	5,284	802,006	6,182
- Manufacturing	1,616,168	590	5,452	816,796	9,777
- Transport and transport equipment	881,549	-	-	469,532	-
- Recreational activities	1,089	5	-	1,089	-
- Information technology	424	52	-	178	-
- Others	8,015,559	31,083	6,324	3,393,053	25,598
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	527,447	-	-	527,443	-
- Loans for the purchase of other residential properties	6,459,070	257	-	6,456,622	-
- Credit card advances	76,156	5,507	228	6,698	314
- Others	1,686,550	7,117	5,914	1,323,649	9,897
	<u>35,018,908</u>	<u>53,402</u>	<u>25,322</u>	<u>25,087,825</u>	<u>53,541</u>
Trade finance	1,183,074	31,055	12,243	405,584	21,956
Loans for use outside Hong Kong	<u>5,136,502</u>	<u>87,558</u>	<u>2,988</u>	<u>2,285,455</u>	<u>2,692</u>
	<u><u>41,338,484</u></u>	<u><u>172,015</u></u>	<u><u>40,553</u></u>	<u><u>27,778,864</u></u>	<u><u>78,189</u></u>

*Note: Loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.*

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written-off during the six months ended 30 June 2012 and 2011 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	<b>Advances overdue for over three months as at 30 June HK\$'000</b>	<b>2012 New impairment allowances during the six months ended 30 June HK\$'000</b>	<b>Advances written-off during the six months ended 30 June HK\$'000</b>
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	12,968	1	-
- Others	13,758	146	-
Individuals			
- Loans for the purchase of other residential properties	-	-	-
Loans for use outside Hong Kong	<u>2,378</u>	<u>66</u>	<u>195</u>
	<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>2011 New impairment allowances during the six months ended 30 June HK\$'000</b>	<b>Advances written-off during the six months ended 30 June HK\$'000</b>
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	13,245	10	-
- Others	28,918	7,220	-
Individuals			
- Loans for the purchase of other residential properties	-	-	-
Loans for use outside Hong Kong	<u>2,692</u>	<u>5,431</u>	<u>-</u>

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	30 June 2012				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	38,773,225	173,799	25,948	27,300	157,674
People's Republic of China	426,402	2,378	2,378	918	4,294
Macau	149,413	–	–	–	1,494
America	482,620	–	–	–	5,430
Others	408,985	–	–	–	–
	<u>40,240,645</u>	<u>176,177</u>	<u>28,326</u>	<u>28,218</u>	<u>168,892</u>

	31 December 2011				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	39,707,568	94,937	75,497	39,440	161,768
People's Republic of China	622,384	2,692	2,692	1,113	4,141
Macau	114,711	–	–	–	669
America	451,395	–	–	–	5,437
Others	442,426	–	–	–	–
	<u>41,338,484</u>	<u>97,629</u>	<u>78,189</u>	<u>40,553</u>	<u>172,015</u>

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 3. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	30 June 2012			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	20,214,535	222,362	777,494	21,214,391
- of which - China	<u>10,810,459</u>	<u>162,322</u>	<u>580,912</u>	<u>11,553,693</u>
	31 December 2011			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	15,487,390	918,826	734,718	17,140,934
- of which - China	8,456,240	857,526	571,831	9,885,597
- of which - Australia	2,815,725	2,223	–	2,817,948
Western Europe	<u>2,857,996</u>	<u>2,525</u>	<u>169,331</u>	<u>3,029,852</u>

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2012		31 December 2011	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
- 6 months or less but over 3 months	126,012	0.3	30,179	0.1
- 1 year or less but over 6 months	21,889	0.1	16,141	0.0
- Over 1 year	<u>28,276</u>	<u>0.1</u>	<u>51,309</u>	<u>0.1</u>
Total overdue advances	<u>176,177</u>	<u>0.5</u>	<u>97,629</u>	<u>0.2</u>
Rescheduled advances	<u>202,777</u>	<u>0.5</u>	<u>219,858</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>27,889</u>		<u>35,758</u>	
Covered portion of overdue loans and advances	155,746		68,867	
Uncovered portion of overdue loans and advances	<u>20,431</u>		<u>28,762</u>	
	<u>176,177</u>		<u>97,629</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>492,620</u>		<u>252,500</u>	

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 30 June 2012 and 31 December 2011, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 30 June 2012 amounted to HK\$69,850,000 (31 December 2011: HK\$63,050,000).

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 5. NON-BANK MAINLAND EXPOSURES

Types of counterparties	30 June 2012			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Mainland entities	2,054,834	616,883	2,671,717	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,600,984	1,041,363	6,642,347	10,462
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	62,017	–	62,017	–
	<u>7,717,835</u>	<u>1,658,246</u>	<u>9,376,081</u>	<u>10,462</u>
Types of counterparties	31 December 2011			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Mainland entities	1,870,137	231,133	2,101,270	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,572,958	1,177,710	5,750,668	12,392
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	61,110	–	61,110	–
	<u>6,504,205</u>	<u>1,408,843</u>	<u>7,913,048</u>	<u>12,392</u>

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 6. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

Equivalent in thousand of HK\$	30 June 2012		
	US\$	RMB	Total
Spot assets	14,953,488	7,238,707	22,192,195
Spot liabilities	(10,441,060)	(6,034,975)	(16,476,035)
Forward purchases	243,019	146,817	389,836
Forward sales	(4,723,557)	(1,221,394)	(5,944,951)
Net long position	<u>31,890</u>	<u>129,155</u>	<u>161,045</u>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>

Equivalent in thousand of HK\$	31 December 2011		
	RMB		
Spot assets			6,496,856
Spot liabilities			(6,307,434)
Forward purchases			264,518
Forward sales			(383,066)
Net long position			<u>70,874</u>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<u>48,545</u>	<u>105,169</u>	<u>153,714</u>



## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 7. THE CONTRACTUAL AMOUNTS OF EACH OF THE FOLLOWING CLASSES OF CONTINGENT LIABILITIES AND COMMITMENTS OUTSTANDING ARE:

	30 June 2012 HK\$'000	31 December 2011 HK\$'000
<b>Contingent liabilities and commitments - contractual amounts</b>		
Direct credit substitutes	1,111,785	1,163,474
Trade-related contingencies	456,263	373,802
Forward asset purchases	11,948	8,550
Other commitments		
Which are unconditionally cancellable without prior notice	9,090,270	6,880,736
With an original maturity of one year and under	6,932,019	7,093,803
With an original maturity of over one year	2,307,178	2,210,112
	<u>19,909,463</u>	<u>17,730,477</u>

Most of contingent liabilities and commitments are denominated in Hong Kong dollars.

The replacement cost and credit risk weighted amounts of the contingent liabilities, commitments and derivatives exposures are as follows:

	30 June 2012		31 December 2011	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	N/A	3,211,944	N/A	3,235,547
Exchange rate contracts	22,423	23,705	8,181	14,662
Interest rate contracts	166,826	50,988	121,375	38,601
	<u>189,249</u>	<u>3,286,637</u>	<u>129,556</u>	<u>3,288,810</u>

The above amounts do not take into account the effects of bilateral netting arrangements.

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or contract. If the resultant value is positive for the Group, taking the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, taking the resultant value of the existing transaction or contract as zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"), which came into operation on 1 January 2007, and the guidelines issued by the HKMA.

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 8. CAPITAL ADEQUACY RATIO AND LIQUIDITY RATIO

	30 June 2012 %	31 December 2011 % (Note)
Capital adequacy ratio	15.27	15.44
Core capital ratio	<u>10.53</u>	<u>10.58</u>
	Six months ended 30 June 2012 %	2011 %
Average liquidity ratio for the period	<u>44.35</u>	<u>41.79</u>

Capital adequacy ratio was compiled in accordance with the Banking (Capital) Rules under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord, which became effective on 1 January 2007. In accordance with the Banking (Capital) Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk, “standardised (market risk) approach” for the calculation of market risk and “basic indicator approach” for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month’s average ratio, as specified in the Fourth Schedule of the Hong Kong Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited and Gallbraith Limited.

*Note: The capital ratios as at 31 December 2011 have not been restated as a result of the adoption of the amendments to Hong Kong Accounting Standard 12 Deferred Tax: Recovery of underlying assets in the current period. Accordingly, the comparative amounts under the core capital as set out in Note 9 would not correspond with the figures in the condensed consolidated financial information.*

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 9. OTHER FINANCIAL INFORMATION

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2012 and 31 December 2011 and reported to the HKMA is analysed as follows:

	<b>30 June 2012</b>	<b>31 December 2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Core capital		
Paid-up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,655,363	3,376,550
Profit and loss account	205,956	260,692
Less: Net deferred tax assets	<u>(5,657)</u>	<u>(6,721)</u>
Total core capital	5,615,979	5,390,838
Other deductions from core capital	<u>(120,213)</u>	<u>(120,596)</u>
Core capital after deductions	<u>5,495,766</u>	<u>5,270,242</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	36,116	35,117
Collective impairment allowances	168,892	172,208
Regulatory reserve for general banking risks	396,000	408,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	61,312	14,711
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	32,547	59,573
Term subordinated debt	<u>1,894,682</u>	<u>1,852,153</u>
Total supplementary capital	2,589,549	2,541,762
Other deductions from supplementary capital	<u>(120,213)</u>	<u>(120,596)</u>
Supplementary capital after deductions	<u>2,469,336</u>	<u>2,421,166</u>
Total capital base after deductions	<u>7,965,102</u>	<u>7,691,408</u>
Total risk-weighted amount	<u>52,175,747</u>	<u>49,811,293</u>

Deductions from the total capital base mainly include investments in subsidiaries of which their risk-weighted assets have not been consolidated into the total risk-weighted assets of the Group, which mainly conduct non-banking related business. Those subsidiaries are Chong Hing Commodities and Futures Limited, Chong Hing Insurance Company Limited, Chong Hing (Management) Limited, Chong Hing (Nominees) Limited and Chong Hing Securities Limited.

## **SUPPLEMENTARY INFORMATION**

*for the six months ended 30 June 2012*

### **10. STATEMENT OF COMPLIANCE**

In preparing the interim financial information for 2012, the Bank has fully complied with the “Banking (Disclosure) Rules”.

### **11. BASIS OF CONSOLIDATION**

This interim financial information covers the condensed consolidated financial statements of the Bank and all its subsidiaries and included the attributable share of interest in the Group’s jointly controlled entities.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group’s jointly controlled entities whereas the latter includes the Bank and only some of the Group’s subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

### **12. OTHER OPERATING INCOME**

Included within fee and commission income and fee and commission expense, other than amounts included in determining the effective interest rate, are HK\$50,438,000 (2011: HK\$45,143,000) and HK\$29,645,000 (2011: HK\$27,184,000) arising from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

### **13. RISK MANAGEMENT**

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees and departments of the Group and are regularly reviewed by the Board of Directors. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the Asset and Liability Management Committee (the “ALCO”). The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the Risk Management and Compliance Committee (the “RMCC”) policies are monitored by the Treasury Management Department and the Finance Department with the assistance of various qualitative and quantitative analyses.

In addition to complementing the ALCO in the management of assets and liabilities, the RMCC also oversees the implementation of the policies and procedures established for managing the Group’s operational, legal, and reputation risks and compliance requirements.

## SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2012

### 13. RISK MANAGEMENT– continued

#### (i) Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio has remained well above the statutory minimum ratio of 8% for the past five financial years.

#### (ii) Credit risk

Credit risk is the risk that a customer or counter-party may fail to meet a commitment when it falls due.

The Group's lending policy sets out in detail the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA.

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors.

#### (iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.

#### (iv) Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (v) foreign exchange risk.

#### (v) Foreign exchange risk

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Structural foreign exchange exposure arising from investments in foreign branches and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury Management Department within approved limits.

The Group takes on exposure to effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Off-balance sheet notional position represents the contractual amounts of foreign currencies bought and sold under foreign exchange contracts. Bought currency is represented by positive amount and sold currency is represented by negative amount.

## **SUPPLEMENTARY INFORMATION**

*for the six months ended 30 June 2012*

### **13. RISK MANAGEMENT – continued**

#### **(vi) Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The Group does not carry interest rate positions on its trading book. Certain interest rate contracts entered into to manage the Group's own risk are classified as trading securities. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

#### **(vii) Operational and legal risk**

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures.

Executive directors, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board of Directors for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

#### **(viii) Reputation risk**

Reputation risk is the risk to earnings or capital arising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on the Group's behalf do not jeopardise its reputation.

## **INTERIM DIVIDEND**

The directors have declared an interim cash dividend for 2012 of HK\$0.11 per share, payable on Thursday, 27 September 2012 to shareholders whose names are listed on the register of members of the Bank on Thursday, 20 September 2012 (2011 interim cash dividend: HK\$0.15 per share paid on 29 September 2011).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Bank will be closed from Tuesday, 18 September 2012 to Thursday, 20 September 2012 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2012 interim cash dividend, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Monday, 17 September 2012.

## **PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES**

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2012.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The directors confirm that, for the accounting period for the six months ended 30 June 2012, the Bank has complied with the former (Code on Corporate Governance Practices) and the revised (Corporate Governance Code) Code Provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except:

1. Under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider such practices to be appropriate alternatives to those recommended under Code Provisions A.4.1 and A.4.2.
2. As to the nomination of candidates for appointment to the board, instead of having a standing nomination committee in place under Code Provision A.5.1, any director is entitled to recommend for the consideration and, if thought fit, approval of the board suitable candidates who can contribute to the Bank, discharge their responsibilities in the interests of the Bank and its shareholders as a whole, and meet the requirements of The Stock Exchange of Hong Kong Limited, the Hong Kong Monetary Authority, and any other relevant statutory, supervisory and regulatory bodies. The directors consider such a practice to be an appropriate alternative to that recommended under Code Provision A.5.1.

3. As set forth in the Bank's Policy Statement on Corporate Governance, the directors should bear in mind that despite their respective directorial classifications (as the case may be, as executive directors, non-executive directors or independent non-executive directors), each of them shall exercise his own judgement when matters are submitted to the board for the individual directors' collective review, decision and approval. The directors shall guard against any conflict of interest and act in good faith in the interests of the Bank as a whole at all times. They shall exercise due care, diligence and skill when performing their duties and shall use their powers for proper corporate purposes only.

In line with the Bank's Policy Statement on Corporate Governance, the Chairman has encouraged his fellow directors (be they executive directors, non-executive directors or independent non-executive directors) to freely express their views and has allowed sufficient time for discussion of issues at full board meetings. If, for example, the non-executive directors (including the independent non-executive directors) hold views contrary to those of the executive directors in respect of any matter discussed at a full board meeting, the minutes will have this reflected clearly. In the light of such an established practice, the directors are of the view that such open and free discussions at full board meetings among all the directors are more productive and, as such, there is no further need for the non-executive directors (including the independent non-executive directors) to hold meetings, under Code Provision A.2.7, without the presence of the executive directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Securities Transactions Code"). After specific enquiry by the Bank, all of the directors confirmed that, for the accounting period for the six months ended 30 June 2012, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank's own code in question.

#### **PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK**

The Bank's Interim Report 2012, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.



## CHAIRMAN'S STATEMENT

### **Economic Review**

On entering 2012, the global financial market continued to be overshadowed by the European debt crisis. While the Greek election result in June brought brief relief for concerns about the country's exit from Eurozone, Spain and Cyprus' requests for assistance reflected the plight of the Euro economy.

The Hong Kong economy decelerated under the influence of the European debt crisis. Compared with that of the same period last year, gross domestic product for the first quarter grew slightly by 0.4% in real terms. Total exports of goods fell by 5.7% in real terms in the first quarter over a year earlier, representing the biggest decline since the third quarter of 2009. Nevertheless, the labour market remained buoyant with unemployment rate dropping to 3.2%, thanks to the strong domestic demand. Local inflationary pressure eased back due to the retreat in global food prices and rental costs growth. The stock market was highly volatile throughout the first half of the year.

To align with the targets set out in the National 12th Five-Year Plan, the Central Government announced in March 2012 the economic growth target for the year to be 7.5%. This is the first time in eight years the target has been fixed below 8%. In July, figures published by China's National Bureau of Statistics indicated that the mainland's gross domestic product grew at an annualised rate of 7.6 percent in the second quarter of 2012, down from the annualised rate of 8.1 percent in the first quarter of 2012. This marked the sixth consecutive quarter that growth had slowed down. In light of receding inflation and sluggish economic growth, The People's Bank of China ("PBoC") lowered the reserve requirement ratio for major banks in the mainland twice in the first half of the year to the current level of 20%. In June, PBoC announced its first interest rate cut by 25 basis points in three and a half years. Less than a month later, an asymmetric interest rate cut has been announced with the benchmark one-year deposit rate and the benchmark one-year loan rate further reduced by 25 and 31 basis points respectively, reflecting the determination of the Central Government to prioritise growth stability after successfully controlling inflation.

## Results Announcement and Profit Analysis

The results for the six months ended 30 June 2012 of the Bank, on an unaudited, consolidated basis, are summarised below:

Key Financial Data	Six months ended 30 June		Variance %
	2012 HK\$'000 (unless otherwise specified)	2011 HK\$'000 (unless otherwise specified)	
1. Net operating profit before impairment	257,098	385,959	-33.39
2. Profit attributable to shareholders	259,749	409,793	-36.61
3. Return on equity	7.42% (annualised)	8.32% (for year 2011)	-10.82
4. Earnings per share	HK\$0.60	HK\$0.94	-36.61
5. Net interest income	400,551	386,660	+3.59
6. Net interest margin	1.06%	1.11%	-4.50
7. Net fee and commission income	91,877	113,700	-19.19
8. Net gains (losses) on financial instruments at fair value through profit or loss	28,358	(24,661)	+214.99
9. Operating expenses	387,075	391,426	-1.11
10. Cost-to-income ratio	60.09%	50.35%	+19.34
11. Impairment allowances on loans and advances - Net amounts reversed	34,432	76,044	-54.72
12. Total loans and advances to customers	40,240,645	41,338,484 (as of Dec 2011)	-2.66
13. Impaired loan ratio	0.07%	0.19% (as of Dec 2011)	-63.16
14. Provision coverage of impaired loans and advances	695.84%	271.87% (as of Dec 2011)	+155.95
15. Rescheduled loan ratio	0.50%	0.53% (as of Dec 2011)	-5.66
16. Total customer deposits	65,009,008	64,815,713 (as of Dec 2011)	+0.30
17. Loan-to-deposit ratio	55.28%	57.17% (as of Dec 2011)	-3.31
18. Total assets	79,822,477	77,455,912 (as of Dec 2011)	+3.06
19. Net asset value per share	HK\$16.17 (before interim cash dividend)	HK\$15.80 (before final cash dividend as of Dec 2011)	+2.34
20. Capital adequacy ratio	15.27%	15.44% (as of Dec 2011)	-1.10
21. Core capital ratio	10.53%	10.58% (as of Dec 2011)	-0.47
22. Average liquidity ratio	44.35%	41.79%	+6.13

## Analysis of Key Financial Data

For the first half of 2012, on an unaudited, consolidated basis, the net operating profit before impairment of HK\$257 million would have shown an improvement of 70.2% after excluding from previous year's net operating profit the effect of the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme of HK\$235 million. Net interest income increased by 3.6% as total assets rose by 8.5% year on year even though net interest margin narrowed 5 basis points from 1.11% for the first half of 2011 to 1.06%. Revaluation of financial instruments at fair value through profit or loss turned from net losses of HK\$25 million in the corresponding period in previous year to net gains of HK\$28 million in the first half of 2012. Net exchange gain and net gain from foreign currency contracts rose by 72% from increases in treasury activities. On the other fronts, operating expenses dropped by 1.1% from the corresponding period in previous year. New impairment allowances on loans and advances dropped by 88% year on year to HK\$5 million and amounts reversed in impairment allowance on loans and advances from amounts recovered were HK\$39 million in the first half of 2012.

Profit attributable to shareholders amounted to HK\$260 million, a reduction of 36.6% over that for the corresponding period in previous year, translating into earnings of HK\$0.60 per share and annualised return on equity of 7.42%. Profit attributable to shareholders would have shown an improvement of 111% after excluding from previous year's profit attributable to shareholders the after taxation effect of the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme and reversal in impairment allowance on loans and advances from amount recovered on a secured loan which was previously written-off.

As of 30 June 2012, compared with the figures as of 31 December 2011, total loans and advances to customers decreased by 2.7% to HK\$40,241 million. Asset quality of loans and advances continued to be good with impaired loan ratio at 0.07%, provision coverage of impaired loans and advances at 695.84%, and rescheduled loan ratio at 0.5%. Investments in available-for-sale securities rose by 61.6% to HK\$2,984 million and such investments were mainly in senior debt securities guaranteed or issued by large corporate entities which are listed on the Stock Exchange of Hong Kong. Advances to banks and other financial institutions increased by 143% to HK\$3,658 million and such advances were mainly in trade finance-related short-term loans. Total customer deposits remained stable at HK\$65,009 million. Loan-to-deposit ratio dropped from 57.17% in December 2011 to 55.28% in June 2012 and average liquidity ratio increased by 6.13% to 44.35% year on year. Capital adequacy ratio eased 1.1% to 15.27% after the increase in total assets, and core capital ratio was at 10.53%. Total assets increased by 3.1% to HK\$79,822 million. The Bank's net asset value (before the payment of the interim cash dividend declared for 2012) was HK\$16.17 as of 30 June 2012 which grew by 2.3% from 31 December 2011. All in all, the Bank's core business lines and overall financial health are sound, its non-performing loan ratio low and asset quality good, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements.

Some of the comparative figures mentioned above have been adjusted because of the amendments to Hong Kong Accounting Standard 12 Deferred Tax, in particular profit attributable to shareholders for the six months ended 30 June 2011 increased by HK\$812,000 to HK\$409,793,000 and total assets as of 31 December 2011 increased by HK\$10,140,000 to HK\$77,455,912,000. Full explanation can be found in note 2 to the condensed consolidated financial statements.

## **Interim Dividend**

Your board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel III". As such, your board has declared that the interim cash dividend of HK\$0.11 per share for the six months ended 30 June 2012 be payable on Thursday, 27 September 2012 to shareholders whose names appear in the Register of Members of the Bank on Thursday, 20 September 2012 (2011 interim cash dividend: HK\$0.15 per share paid on 29 September 2011).

## **Business Review**

### **Corporate and Retail Banking**

#### ***Loan and Deposit Business***

Against the backdrop of uncertain external economy and tightened regulation over the local property market, the Bank managed to record growth in the outstanding value of mortgage loans for the first half of 2012 compared with that of the same period last year. On the deposit front, the Bank consolidated its core customer base with high quality services and actively recruited small and medium-sized customers in line with its development approach as a "community bank". During the first six months of the year, the Bank capitalised on changes in the foreign exchange market and launched a variety of foreign currency deposit promotions to enlarge and optimise its customer base. This has prepared the Bank well for future compliance with "Basel III".

As a result of strategic rate adjustments, both interest income and net interest margin of the Bank's corporate loan business grew remarkably over the same period last year and non-interest services income also maintained moderate growth. To further expand the Bank's clientele, the Bank actively supports the SME Financing Guarantee Scheme launched by The Hong Kong Mortgage Corporation Limited.

The Bank's quality SME services are highly recognised by the industry as it entered the nomination for, and received, the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the fourth time.

With the aim of expanding its clientele, the Bank will continue to optimise its corporate loan portfolio and strengthen its cooperation with quality corporate customers in exploring business opportunities in a prudent manner.

#### ***Card Business***

For the first half of 2012, the Bank recorded an increase in the number of credit cards issued and accounts receivable compared with those of the same period last year. Merchant-billed turnover recorded double-digit growth compared with the same period last year. During the first quarter of the year, the Bank launched the "Dual Card Program" for UnionPay Dual Currency Credit Card and other Chong Hing credit cards.

In addition, the Bank became the first local bank to launch "UnionPay EmergencyCash Service" in collaboration with UnionPay in September 2011 and subsequently received the "Innovative Award for Hong Kong and Macau".

#### ***Wealth Management Services***

In August 2011, the Bank launched a competitive and personalised wealth management service specifically for professional investors with two years of investment experience or above. Apart from a diversified range of investment products that cater to their investment needs, the Bank also offered investment updates to encourage proper risk management and prudent investment attitude. With constant system improvement and diversification of investment products, the Bank expects to further expand this service as a new income stream.

### ***Treasury Activities***

Treasury activities mainly comprise money market operations and foreign exchange services. All these activities are carried out under prudent risk management.

In view of the changing status of the European sovereign debt crisis, the Bank closely monitored market volatility. The certificate of deposit programme and collateral swap business, having both achieved their targeted turnover and expected performance, will be further expanded.

In the area of developing Renminbi businesses, the Bank took a prudent and stable approach. The Bank offered a comprehensive range of treasury products and services.

### ***China Business***

The Bank continued to develop its mainland business. Leveraging on the advantage of Hong Kong as an offshore Renminbi business centre, the Bank strengthened its cross-border Renminbi clearing service as well as the provision of cross-border financing to its customers.

In addition, the Bank will further explore the strengthening of its mainland network with more branches and sub-branches to better facilitate its overall business development.

## **Other Related Businesses**

### ***Securities Business***

In the first half of 2012, investment sentiment was dampened by the continued deterioration of the global financial crisis. The local stock market was impacted with a shrinking overall turnover amidst worsening operating environment. Nevertheless, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, still managed to acquire an increasing number of customers, reflecting the wide recognition of its securities services and enhanced performance through a divergent range of marketing strategies.

### ***Insurance Business***

For the first half of 2012, Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, recorded considerable growth in turnover compared with that of the same period last year. Looking into the second half of the year, Chong Hing Insurance will actively seek expansion and service enhancement to maintain its growth momentum so as to better align with the development of the Bank.

## **Corporate Responsibility**

In order to practise the preaching of serving as a “community bank” and providing a comprehensive range of high quality banking services to the local community, the Bank relocated its branch at On Ting Estate in Tuen Mun to Hong Lai Garden of the same district with enhanced service environment in May 2012, providing the neighbourhood with a more convenient access to its banking services. Apart from the three branches and the two representative offices outside Hong Kong as well as the head office in Hong Kong, the Bank now has a total of 52 local branches.

In addition, the Bank has also actively participated in a number of social improvement and public welfare activities. The Hong Kong Council of Social Service awarded the Bank with the “5 Consecutive Years Caring Company” logo in early 2012.

## **Relocation to New Office Premises**

In early April 2012, principal operating units of the Bank were relocated to the newly purchased premises at the whole 15th Floor of Towers 1, 2 and 3 of Enterprise Square in Kowloon Bay. The Bank has taken this relocation opportunity to rethink the optimal locations for all of its operating units. At the end of this relocation exercise, the Bank's operating units have been more optimally placed to achieve better work effectiveness and efficiency.

## **Corporate Governance**

The Bank is well aware that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to the effective and efficient operation of the Bank. The Bank has, therefore, deployed considerable resources, as well as adopted and implemented relevant measures, to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

## **Economic Outlook**

Strong tension in the global financial market continues to pose a serious sagging risk to the economic prospect. Taking a cautious outlook, all major Western central banks have revised their economic forecasts downwards and are prepared to launch further stimulus measures to boost the recovery of their countries' economies and job markets.

To repress the impact of economic downturn and to stabilise economic growth, the Central Government has expressed that economic policy will be further fine-tuned in accordance with changes in economic conditions. To foster a quality policy environment maintaining steady and relatively fast economic development, besides relaxing market liquidity through monetary policies, the Central Government would actively implement policy measures to expand domestic demand and stimulate consumption.

On the local front, the Hong Kong Monetary Authority ("HKMA") revised its regulation on Renminbi liquidity of banks by accepting more Renminbi assets into the calculation of the relevant ratios. The relaxation allowed banks more opportunities to release Renminbi funds in support of its business growth as well as promoted market liquidity and exchange business of the currency. In addition, the HKMA announced in July 2012 the further relaxation of Renminbi business with effect from 1 August 2012, allowing non-local residents to open Renminbi accounts in Hong Kong and offering them a full range of Renminbi services. The new arrangement will accelerate the development of Renminbi products, further consolidating the status of Hong Kong as an offshore Renminbi business centre.

On entering the 15th anniversary of Hong Kong's handover, the Central Government launched a series of measures on six aspects (namely, trade and commerce, finance, education, technology, tourism and Hong Kong-Guangdong co-operation), supporting the economic and social development of Hong Kong through closer collaboration with the mainland. The Bank will continue to tap into such opportunities and strive to facilitate its ongoing steady development by offering a comprehensive range of quality products and services.

## **Sincere Acknowledgements**

Last but not least, on behalf of your board, I would like to express my heartfelt gratitude to our many customers and shareholders for their trust and support, to all my fellow directors for their wise stewardship and to the staff members for their commitment and dedication.

## REVIEW OF INTERIM FINANCIAL INFORMATION

This interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

*As of the date of this announcement:*

- *the seven executive directors of the Bank are Dr Liu Lit Mo (Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Deputy Chief Executive Officer), Mr Lau Wai Man (Deputy Chief Executive Officer), Mr Wilfred Chun Ning Liu, Mr Tsang Chiu Wing and Mr Wong Har Kar;*
- *the six non-executive directors are Mr He Jiale, Mr Andrew Liu, Mr Hidekazu Horikoshi, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and*
- *the five independent non-executive directors are Dr Robin Yau Hing Chan, Mr Timothy George Freshwater, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.*

By Order of the Board

**Liu Lit Mo**

*Chairman*

8 August 2012